

Message Text

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INFO OCT-01 IO-10 ISO-00 FEA-01 TRSY-02 AGR-05 CEA-01

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INT-05 L-03 LAB-04 NSAE-00 NSC-05 PA-01 AID-05

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FM AMEMBASSY COPENHAGEN

TO SECSTATE WASHDC 1402

INFO AMEMBASSY HELSINKI

AMEMBASSY OSLO

AMEMBASSY REYKJAVIK

AMEMBASSY STOCKHOLM

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E.O. 11652: N/A

TAG: PINT, ECIN, DA

SUBJECT: SPECIAL PARLIAMENTARY SESSION CALLED

REF: (A) COPENHAGEN 2156 (NOTAL) (B) COPENHAGEN 2155

1. SUMMARY. THE POLITICAL TRUCE THAT THE RULING SOCIAL DEMOCRATS HAVE ENJOYED APPEARS TO BE COMING TO AN END OVER HOW TO DEAL WITH UNEMPLOYMENT. PRIME MINISTER ANKER JORGENSEN HAS CONVENED A SPECIAL PARLIAMENTARY SESSION IN SEPTEMBER WHERE HIS, STILL UNDISCLOSED, PROPOSALS WILL PROBABLY COLLIDE WITH THOSE OF POUL HARTLING'S LIBERALS. THE BASIC DIVISION IS LIKELY TO BE OVER ATTEMPTS TO REDUCE UNEMPLOYMENT BY LARGE BUDGET DEFICITS TO PAY FOR LIMITED OFFICIAL USE

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PUBLIC CONSTRUCTION PROJECTS (SOCIAL DEMOCRATS) AND

A LESSENING OF THE TAX BURDEN ON COROPORATIONS TO STIMULATE BUSINESS INVESTMENT (LIBERALS). ALTHOUGH ALMOST NONE OF THE PARTIES WANTS GENRAL ELECTIONS THIS AUTMN, THE UNCERTAINITES OF PARLIAMETARY MANEUVERING COULD CONEIVABLY RESULT IN ONE. END SUMMARY

2. THE TELEGRAMS UNDER REFERENCE DRAFTED IN LATE JULY EXAMINED THE FIRST FIVE MONTHS IN OFFICE OF ANKER JORGENSEN'S SECOND SOCIAL DEMOCRATIC GOVERNMENT. THEY ANALYZED THE REASONS FOR THE POLITICAL TRUCE THAT HAS EXISTED DURING MOST OF THIS PERIOD AND PREDICTED TROUBLE IN THE FALL. IT NOW APPEARS THAT A SERIOUS CONFRONTATION MAY BE SHAPING UP BETWEEN THE SOCIAL DEMOCRATS AND FORMER PRIME MINISTER PAUL HARLING'S LIBERALS. THE DISPUTE WILL BE OVER EFFORTS OF THE SOCIAL DEMOCRATS TO DEAL WITH THE NAGGING PROBLEM OF UNEMPLOYMENT. LEGISLATIVE MEASURES THE SOCIAL DEMOCRATS ARE EXPECTED TO PROPOSE WILL ALMOST CERTAINLY INCREASE GOVERNMENT EXPENDITURES AND CREATE HIGHER BUDGET DEFICITS THAN THE LIBERALS CAN EASILY SANCTION.

3. JORGENSEN FIRED THE FIRST SHOT WHEN HE ASKED THAT PARLIAMENT (FOLKETING) BE RECONVENED IN A SPECIAL SESSION OF ABOUT ONE WEEK BEGINNING SEPTEMBER 8 TO DISCUSS THE ECONOMIC SITUATION IN GENERAL AND THE UNEMPLOYMENT SITUATION IN PARTICULAR. DANISH UNEMPLOYMENT CONTINUES TO RUN AT THE UNTRADITIONALLY HIGH RATE OF AROUND 5 PERCENT OF THE TOTAL LABOR FORCE OR ABOUT 115,000 CURRENTLY UNEMPLOYED. WINTER SEASONAL LAYOFFS COULD FURTHER BOOST THIS FIGURE. THIS DIRE PROSPECT HAS FORCED THE GOVERNMENT INTO ACTION.

4. IN A COMMENTARY IN THE SOCIAL DEMOCRATIC DAILY, AKTUEL, ANKER JORGENSEN HIMSELF DESCRIBED THE SITUATION AS HE SAW IT:

"OVER THE NEXT FEW WEEKS WE WILL HEAR FROM THE OPPOSITION PARTIES THAT IT IS NECESSARY TO LIMITED OFFICIAL USE

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SAVE IN GOVERNMENT EXPENDITURE IN ORDER TO ALLEVIATE THE UNEMPLOYMENT SITUATION...BUT WE HAVE TO BE CAREFUL NOT TO SAVE SO MUCH THAT WE DESTROY THE POSSIBILITY OF ENJOYING THE FRUITS OF OUR ENDEAVORS.

"THE GOVERNMENT BELIEVES THAT INVESTMENT AND CONSUMPTION MUST BE INCREASED AND THAT THE

PUBLIC SECTOR MUST BE ONE OF THE TOOLS TO
REPAIR THE BAD UNEMPLOYMENT SITUATION
AND THE ECONOMY IN GENERAL.

"ALTHOUGH WE ARE, ON THE ONE HAND, FACED
WITH A SERIOUS UNEMPLOYMENT SITUATION, THE
COUNTRY BY NO MEANS FINDS ITSELF IN AN
ECONOMIC CRISIS. DEVELOPMENTS ON THE PRICE
AND INFLATION FRONTS ARE ENCOURAGING. IN
FACT, WE HAVE BROUGHT DOWN OUR INFLATION
RATE TO ONE OF THE LOWEST IN EUROPE AROUND 7-8
PERCENT. FURTHERMORE, OUR BALANCE OF
PAYMENTS SITUATION IS ACCEPTABLE. IN THIS
SITUATION, THE GOVERNMENT BELIEVES IT IS
DEFENSIBLE TO OPERATE WITH A LARGER BUDGET
DEFICIT."

5. ALTHOUGH WHAT EXACTLY THE SOCIAL DEMOCRATS ARE
PLANNING TO ADVANCE IN THE SPECIAL SESSION IS NOT
YET KNOWN, THE GOVERNMENT MIGHT WELL PROPOSE A
TEMPORARY REDUCTION IN THE VALUE-ADDED TAX (VAT)
FROM 15 TO 10 PERCENT. OTHER SPECULATION IS THAT
THE VAT RATE MIGHT BE REDUCED ONLY ON DOMESTIC
ITEMS IN ORDER TO STIMULATE PURCHASES OF DANISH
PRODUCTS AND FURTHER DISCOURAGE IMPORTS FROM
ABROAD. A TEMPORARY SURCHARGE ON CERTAIN IMPORTS
MIGHT ALSO BE LEVIED. AUTOMOBILES, WHICH WERE
SUBJECT TO SIMILAR TAX MEASURES IN THE SECOND HALF
OF 1974, ARE MENTIONED AS A POSSIBLE OBJECT.

6. NEWSPAPER ARTICLES INDICATE THAT A MAJOR
RECIPIENT OF GOVERNMENT largesse WOULD ALMOST CER-
TAINLY BE THE CONSTRUCTION INDUSTRY, AN AREA WHICH
HAS BEEN PARTICULARLY HARD HIT BY BOTH UNEMPLOYMENT
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AND THE FISCAL SQUEEZE. THE LIBERALS WILL PROBABLY
OPPOSE SIGNIFICANT INCREASES IN PUBLIC CONSTRUCTION
PROJECTS AND FEEL STRONGLY THAT INCREASED EMPLOY-
MENT, IF IT IS TO RECEIVE STIMULATION THROUGH
PUBLIC FUNDS, SHOULD BE DIRECTED TOWARD "ECONOMIC"
ENTERPRISES WHICH CAN "EARN" DENMARK SOMETHING.
THEY WOULD, FOR EXAMPLE, EASE THE TAX BURDEN ON
CORPORATIONS IN ORDER TO STIMULATE INVESTMENT.

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7 LIBERAL LEADER POUL HARTLING HAS PUBLICLY RE-
COGNIZED THE SEVERITY OF THE UNEMPLOYMENT PROBLEM
AND HAS PROMISED THAT HIS PARTY WOULD SUBMIT
PROPOSALS AT THE SPECIAL SESSION.(HE IMPLIED A
WILLINGNESS TO CONFRONT THE GOVERNMENT BY
DESCRIBING THE SESSION AS "ONE WHERE THE CHOICE
WILL HAVE TO BE MADE BETWEEN THE UNEMPLOYMENT
PROPOSALS SUBMITTED BY THE GOVERNMENT AND THOSE
WE SUBMIT."

8. FORMER PRIME MINISTER AND LEADER OF THE RADICALS
HILMAR RAUNSGAARD HAS SAID "IT WILL TAKE AN AWFUL
LOT OF PERSUASION FOR THE MINORITY SOCIAL DEMOCRATS
TO CONVINCE THE OPPOSITION OF THE SOUNDNESS OF
THEIR PLANS." ON THE OTHER HAND, ON AUGUST 19,
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SPOKESMEN FOR THE RADICALS, CHRISTIAN PEOPLES

PARTY AND CENTER DEMOCRATS BACKED GOVERNMENT PROPOSALS TO STIMULATE DOMESTIC CONSUMPTION TO BOOST EMPLOYMENT. FURTHER, ON AUGUST 21 A BLUE-RIBBON PANEL OF PRIVATE DANISH ECONOMISTS ALSO ENDORSED GOVERNMENT'S INTENTION TO STIMULATE CONSUMPTION.

9. IN AN AUGUST 21 CONVERSATION WITH POLCOUNS, A YOUNG LIBERAL MP (PETER BRIXTOFTE), WHO IS AN ECONOIST AND A MEMBER OF THE TAX COMMITTEE, DESCRIBED THE TACTICS HE BELIEVES THE LIBERALS WILL FOLLOW IN SEPTEMBER. THEY REGARD THE EXPECTED PROPOSALS OF THE SOCIAL DEMOCRATS AS ILL-ADVISED. PARTICULARLY SO, IN LIGHT OF WHAT THEY JUDGE TO BE ONLY A TEMPORARY AMELIORATION OF DENMARK'S BALANCE OF PAYMENTS POSITION AND INFLATION RATE.

10. ACCORDING TO BRIXTOFTE, "NONE OF THE PARTIES WANTS A FALL ELECTION. FURTHERMORE, IF THE SOCIAL DEMOCRATS ARE ABLE TO LINE UP THE THREE CENTER PARTIES, AS WELL AS THE SOCIALST PEOPLES PARTY ON THE LEFT, THE GOVERNMENT WILL CARRY THE DAY."

11. THE LIBERALS, SAID BRIXTOFTE, INTEND TO MAKE THEIR ARGUMENTS AGAINST THE GOVERNMENT'S PROPOSALS AND, UNELSS A SATISFACTORY COMPROMISE IS REACHED, ABSTAIN ON THE FINAL VOTE. THE SOCIAL DEMOCRATIC MEASURES WILL NOT PROVE EFFECTIVE AND THUS THE LIBERALS WOULD BE IN A GOOD POSITION TO FORCE A SHOWDOWN AND PROBABLY ELECTIONS AT THE TIME THE BUDGET HAS TO BE PASSED IN MARCH 1976.

12. COMMENT BRIXTOFTE'S SCENARIO IS A PLAUSIBLE ONE. ON THE OTHER HAND, UNCERTAINTIES SURROUNDING THE ULTIMATE SOCIAL DEMOCRATIC PROPOSALS, THE EXACT COMPOSITION OF SUPPORT THEY WILL ATTRACT AND PARLIAMENTARY MANEUVERING AND COMPROMISES POSE UNFORESEEABLE VARIABLE. IT WULD APPEAR CLEAR, HOWEVER, THAT FALL ELECTIONS WOULD BE IN THE INTEREST OF NONE OF THE PARTIES WITH THE POS-LIMITED OFFICIAL USE

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SIBLE EXCEPTION OF GLISTRUP'S PROGRESSIVES. THE DANISH VOTER WOULD PENLIZE ANY PARTY BEIEVED "GUILTY" OF PROVOKING AN ELECTION LESS THAN A YEAR AFTER THE UNWANTED CONTEST IN JANUARY 1975. SOME OF THE SMALLER PARTIES WOULD SEE THEIR REPRESNTATION REDUCED STILL FURTHER OR EVEN EXTINGUISHED. IN SPITE OF ANYONE'S INTENTION, HOWEVER, THE OUTCOME WILL BE THE UNKNOWN AND PERHAPS

UNWATED OUTCOME OF THE PARLIAMENTARY TACTICAL
PROCESS AS IT UNWINDS BOTH IN SEPTEMBER AND AT THE
OPENING OF THE REGULAR SESSION IN OCTOBER.
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